

A nonprofit organization awarding scholarships based on scholastic ability, without regard to financial need, may qualify for exemption under section 501(c)(3) of the Code.

Advice has been requested whether a nonprofit organization that awards scholarships to individuals on the basis of scholastic ability rather than financial need qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed and is operated to award scholarships to students for educational studies in institutions of higher learning. The recipients are selected from a broad class of applicants on the basis of scholastic standing only. The organization is supported by grants and contributions.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes. Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' is used in section 501(c)(3) in its generally accepted legal sense. Therefore, it includes advancement of education.

A trust for educational purposes is charitable although the persons to be educated are not limited to the poor. Therefore, the fact that recipients of the scholarships are selected on the basis of scholastic ability without regard to financial need does not preclude exemption under section 501(c)(3). Where a trust is created for the education of poor children it is charitable not merely as a trust to promote education but also as a trust for the relief of poverty. See Scott on Trusts, Third Edition, paragraph 370 (1967).

Accordingly, the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(3) of the Code) file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.